HOUSING MARKET OUTLOOK

Saguenay

Canada Mortgage and Housing Corporation

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Economic Overview : Slightly Less Uncertainty

The last issue of Housing Market Outlook – Saguenay (Fall-Winter 2005) indicated some uncertainty about the economic situation in the Saguenay census metropolitan area (CMA) and mentioned two major challenges facing the economic players in the area over the coming years. These challenges (economic diversification and demographic decline) are still at the forefront, but the picture has changed somewhat since last fall.

On April 27, 2006, the Canadian government reached an agreement with the U.S. government concerning the settlement of the softwood lumber dispute that will have lasted five years. While the agreement gave rise to both positive and negative comments, the fact remains that the uncertainty hanging over the forest industry was partially dissipated and that the next seven years can be approached within a defined framework. However, this agreement will not cure all the ills of the forest industry, and a restructuring of its various sectors should flow naturally from the recommendations set out in the Coulombe report[1] and the pressure coming from emerging countries. Paper pulp produced from eucalyptus resin, coming from South American countries, is one example of this new competition. In sum, even with this agreement, the forest industry is still changing, and the spectre of job losses related to the restructuring of the different sectors of the industry is not disappearing.

Economic diversification in the area remains a major challenge, if the regional economy is to become less dependent on the wood and aluminum industries. Diversification is also a way of addressing the demographic decline through the creation of skilled jobs that will attract and incite young people having pursued graduate studies outside the area, to come back. In this regard, an amount of $375,000 has recently been invested by the provincial government to attract migrants to the area and facilitate their integration. In short, maintaining current trends (negative net migration, concentra-

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[1] The Coulombe report, named after the commission chair, results from the work of a commission for the scientific, technical, public and independent study of public forest management in Quebec.

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tion of jobs in the aluminum and wood sector, etc.) could have adverse effects on the housing market over the coming years.

Finally, given the labour market outlook for 2006 and 2007, it is expected that the employment level will rise by about 0.5 per cent annually in the Saguenay CMA. Job creation for the Hydro-Québec Péribonka project has reached a peak, and the construction of the four-lane Highway 175 will not significantly increase the number of jobs in the area. Consequently, small- and mid-size businesses, primarily in the service sector, will be providing the majority of the new jobs.

Mortgage Rates to Remain Favourable

Mortgage rates will continue the rising trend that began a few quarters ago already. Despite this upward movement, the rates will stay relatively low, and the anticipated increases will be moderate. In fact, tempered inflation and the strength of the Canadian dollar against the U.S. currency will limit the extent and pace of the increase in mortgage rates.

From now until the end of 2006, rates will rise gradually, gaining 50 to 75 basis points. The posted one-year and five-year mortgage rates will range from 5.75 per cent to 6.75 per cent and from 6.25 per cent to 7.25 per cent, respectively. The increase will be smaller in 2007, as mortgage rates should go up by no more than 25 basis points compared to their 2006 annual averages.

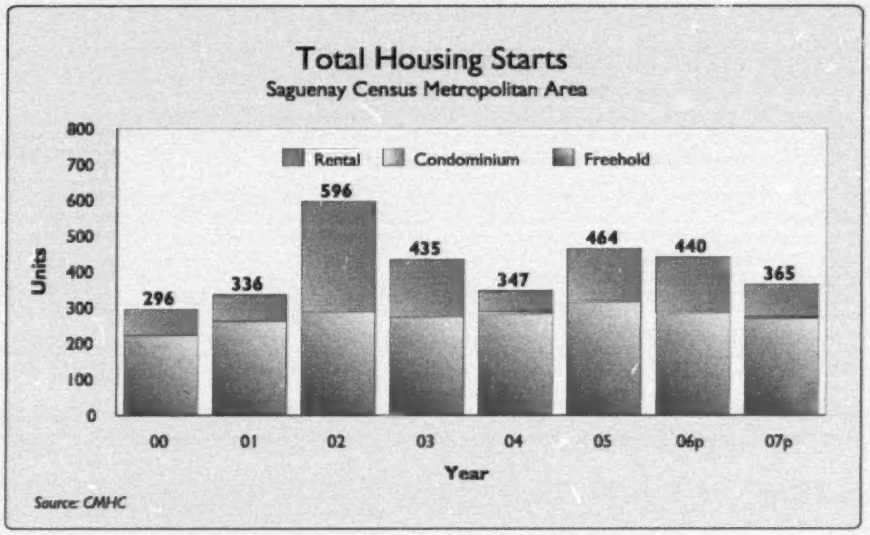
Resale Market to Continue Going Full Tilt

In the Saguenay area[2], annual sales through the Service inter-agences / Multiple Listing Service (S.I.A. / MLS)® have not stopped rising since the beginning of this millennium. Transactions went from 848 units in 2000 to 1,244 units in 2005, with each year's level beating the record from the previous year. This increase in sales took place as the supply of existing homes was steadily declining, with active listings reaching 393 units at the end of 2005, compared to 668 at the end of the year 2000. These opposing trends are somewhat surprising since, generally, when the number of properties for sale decreases, there should be a reduction in the number of transactions, on the assumption that buyers have more difficulty in finding a property that meets their needs. This assumption does not currently seem to hold in the area.

In the Saguenay CMA, the low mortgage rates are the main factor that has been supporting the resale market in recent years and that continues to do so, but the dynamic conditions on the labour market in 2003 and 2004 should not be overlooked. The labour market performance deteriorated in 2005 but, since it normally takes 12 to 18 months for a change on the labour to affect the housing market, the deterioration observed in 2005 should rather be felt starting in the middle of 2006. As well, the new rise in mortgage rates, which began toward the end of 2004 for short-term rates and extended to long-term rates at the end of 2005, is, and will be, too marginal to have a negative impact on the decision of households to purchase a property or not. In addition, household formation among first-time home buyers (aged from 25 to 34 years) should grow more rapidly in 2006 and 2007, which could strengthen demand on the resale market. As a result, at the end of 2006, transactions should be close to the record set in 2005, with 1,200 sales (-4 per cent). In 2007, the above-mentioned factors will still be favourable, with the exception of the delayed effect of the job losses registered in 2005, and 1,150 transactions should be recorded in the Saguenay area, for a decrease of 4 per cent in relation to 2006.

[2] For the resale market, the Saguenay area includes the Saguenay CMA, along with the municipalities of Saint-Ambroise, Saint-David-de-Falardeau, Valin, Sainte-Rose-du-Nord and Saint-Charles.

The high sales volumes observed in recent years, combined with the limited supply, directly affected the price of homes for sale, which rose by 9 per cent between 2004 and 2005. At the end of 2005, the seller-to-buyer ratio, which indicates the power relationship between sellers and buyers, reached 3.8 to 1, its lowest level since 2000 (9.5 to 1). This means that sellers have the advantage during negotiations and that the price of existing homes can be expected to keep rising at a faster rate than inflation. The resale market is considered balanced when the seller-to-buyer ratio stands between 8 and 10 to 1. A ratio below 8 to 1 signifies a seller's market, while a ratio above 10 to 1 indicates a buyer's market. In this context, and since there is no other indication that the number of properties for sale will rise considerably over the coming quarters, the average price of single-family homes should reach $117,000 at the end of 2006 in the Saguenay area, for an increase of 7 per cent over 2005 ($109,419). For 2007, the market should remain tight and continue to favour sellers, although the anticipated decrease in transactions could slightly slow the growth in home prices. The average selling price of single-family homes should therefore rise by 5 per cent to $123,000 in 2007.



Residential Construction : Strength Attributable to Rental Housing

In the Saguenay CMA, starts have registered ups and downs since the beginning of this millennium, as they have varied from a low of 296 units in 2000 to a high of 596 units in 2002. The year 2005, for its part, ended with a total of 464 starts, or 34 per cent more than in 2004. It was a rather active year for the area, despite the climate of uncertainty that hung over the economy, mainly on account of the softwood lumber dispute and the potential repercussions of one of the recommendations from the Coulombe report for a 20% reduction in stumpage fees for certain types of trees. The low borrowing costs and the creation of a few thousand jobs in 2003-2004 no doubt contributed to the strong housing activity in 2005, not to mention that a good number of baby boomers whose children have left home or who are getting closer to retirement are selling their homes to have new ones built to better meet their needs.

For 2006, factors such as the low mortgage rates, household formation and the limited supply on the resale market will continue to have a positive impact on residential construction. However, the slowdown on the labour market observed in 2005 and the migration losses will negatively affect demand during the course of the year, which is why we are expecting a slight decrease in activity in 2006. In fact, 440 new dwellings should be started in 2006, down by 5 per cent in relation to 2005. In 2007, all these factors, except for the limited supply on the resale market, should be less and less favourable to the demand. We therefore anticipate that construction will get under way on 365 new units in 2007 (-17 per cent).

For freehold dwellings[3], the trend has been rather linear for the past few years. Since the year 2000, around 275 houses of this type have been built annually in the Saguenay CMA. In 2005, activity was slightly more vigorous, as 315 freehold homes were started, for a gain of 12 per cent over 2004 (282 units). The low mortgage rates, the limited supply on the resale market and the desire of baby boomers to have a property that better meets their needs were the main factors that stimulated activity in this market segment. As mentioned earlier, several factors will continue to have a positive impact on the demand for new housing during 2006, and this also holds true for the freehold home segment. However, the job

[3] Refers to single-family houses (detached, semi-detached and row homes) owned under freehold tenure and owner-occupied duplexes.

losses observed in 2005 will darken the outlook and add to the negative impact of the net migration level. Consequently, it is expected that construction will begin on 285 freehold homes in 2006, for a decrease of 10 per cent in relation to 2005. For 2007, since most of the factors will be less favourable, starts are expected to decline by about 5 per cent to 270 units.

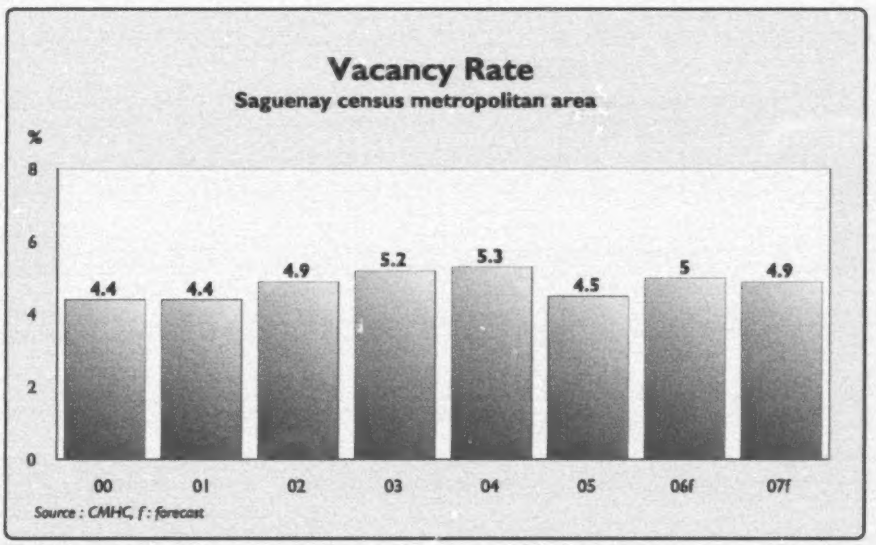
In the rental housing segment, the trend that has emerged in recent years is very different and, contrary to the freehold home market, this segment shows great volatility. Since the year 2000, starts of this type have varied from a low of 58 units in 2004 to a high of 308 units in 2002. This market segment is divided into two submarkets: the traditional market and the retirement home market. Since 2000, the latter (retirement home submarket) has accounted for the majority of the starts in the Saguenay CMA, which explains the variability of the rental housing segment.

In 2005, 144 apartment starts were enumerated in the Saguenay CMA, for an increase of 148 per cent over 2004. It was the construction of a 60-apartment project for seniors that inflated the total number of starts of this type of housing. In 2006, another dynamic year is anticipated for rental housing construction and, this time, retirement homes will not be at the forefront. Instead, social housing construction will stimulate activity on the rental market during the year, thanks to various government programs. In all, it is expected that construction will get under way on 150 apartments in 2006 (+4 per cent), and 90 in 2007 (-40 per cent). The slowdown anticipated for 2007 will be directly attributable to the fact that several social housing projects will have been started in 2006 and that this will not be repeated in 2007.

Rental Market: Unit Surplus to Stay Up

For the past several years, the Saguenay CMA has been contending with a surplus of rental housing units, as evidenced by the historical vacancy rate trend in the area. In fact, since 1988, the vacancy rate has never fallen below the 4-per-cent mark, and the average rate for the last 18 years is 5.3 per cent. This is well above the theoretical balanced rate, which is around 3 per cent in Quebec, and is the reason why it can be said that there is a surplus of rental housing units in the Saguenay CMA. At the time of the October 2005 survey, the vacancy rate had gone down to 4.5 per cent, for its first decrease since the year 2000. This drop in the vacancy rate had been due to an increase (+2 per cent) in student enrolment at the Université du Québec à Chicoutimi in the fall of 2005, the offer of a new technical course in the borough of La Baie and the stabilization of the supply of retirement housing despite a growing demand attributable to the aging of the population.

The situation should not have changed drastically by the time of the next survey in October 2006, but a slight increase in the vacancy rate is still anticipated, mainly on account of the arrival of 60 units in the borough of Jonquière in the spring of 2006 and the quasi-stagnation of employment in the area. The vacancy rate should therefore reach 5.0 per cent in October 2006. For 2007, demand dynamics should stay relatively similar, and a vacancy rate of 4.9 per cent is expected.



Forecast Summary
Saguenay Metropolitan Area
Spring-Summer 2006

	2004	2005	2006f	2005/2006	2007f	2006/2007
RESALE MARKET [1]						
MLS Sales®	1,077	1,244	1,200	-4 %	1,150	-4 %
Average MLS price $ ®	100,371	109,419	117,000	7 %	123,000	5 %
NEW HOME MARKET						
Starts						
Total	347	464	440	-5 %	365	-17 %
Freehold	282	315	285	-10 %	270	-5 %
Condominiums	7	5	5	0 %	5	0 %
Rental housing units	58	144	150	4 %	90	-40 %
Average price ($)						
Detached houses	145,208	149,894	151,000	1 %	153,000	1 %
Semi-detached houses	97,130	108,529	111,000	2 %	111,000	0 %
RENTAL MARKET (%)						
Vacancy Rate (october)	5.3	4.5	5.0	--	4.9	--
Average rent (2-bedroom)	459	472	483	2 %	493	2 %
ECONOMIC OVERVIEW						
Mortgage rate 1-year (%)	4.59	5.06	6.27	--	6.41	--
Mortgage rate 5-year (%)	6.23	5.99	6.78	--	6.93	--
Annual employment level	71,775	68,275	68,625	--	69,000	--
Unemployment rate (%)	10.9	10.9	9.5	--	9.6	--

[1] : The publication of MLS data is made possible thanks to the cooperation of the Quebec Federation of Real Estate Boards and the Saguenay-Lac St-Jean Real estate Board. Data could differe from those published previously.
f : CMHC forecasts
Sources: CMHC, SLSJREB and Statistics Canada

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